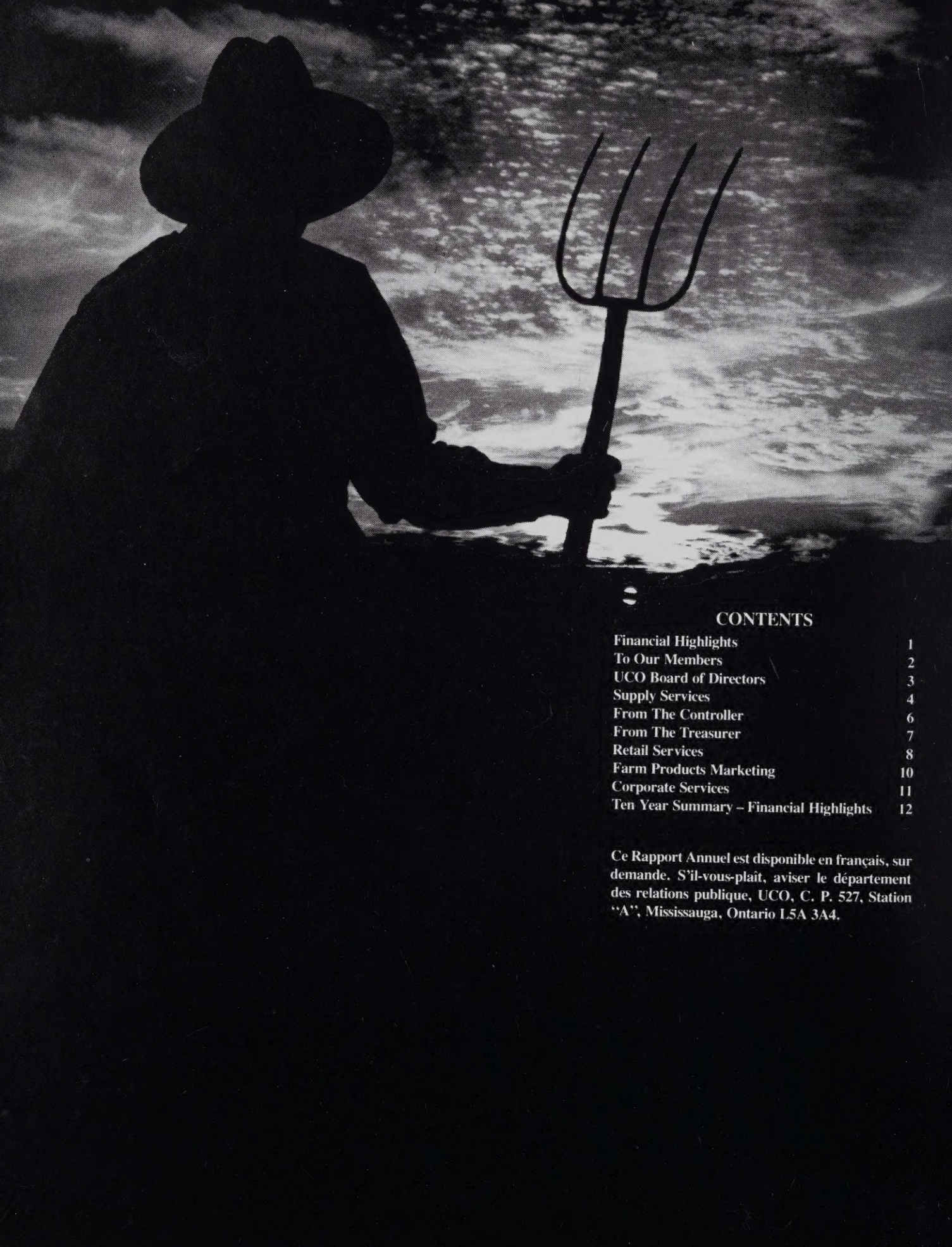




UNITED CO-OPERATIVES OF ONTARIO
Annual Report 1977



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Ce Rapport Annuel est disponible en français, sur demande. S'il-vous-plaît, aviser le département des relations publique, UCO, C. P. 527, Station "A", Mississauga, Ontario L5A 3A4.

UCO FINANCIAL HIGHLIGHTS

	1977	1976
Sales	\$304,750	\$292,398
Savings before income taxes and patronage returns	504	6,384
Income taxes	(180)	1,385
Patronage returns (declared after year-end)	-	3,586
Dividend on preference shares (declared after year-end)	327	296
Additions to property and equipment	10,618	9,846
Working capital	26,816	25,956
Members' equity including deferred income tax	35,688	35,315
Total assets	130,104	109,963

(\$ 000's omitted)

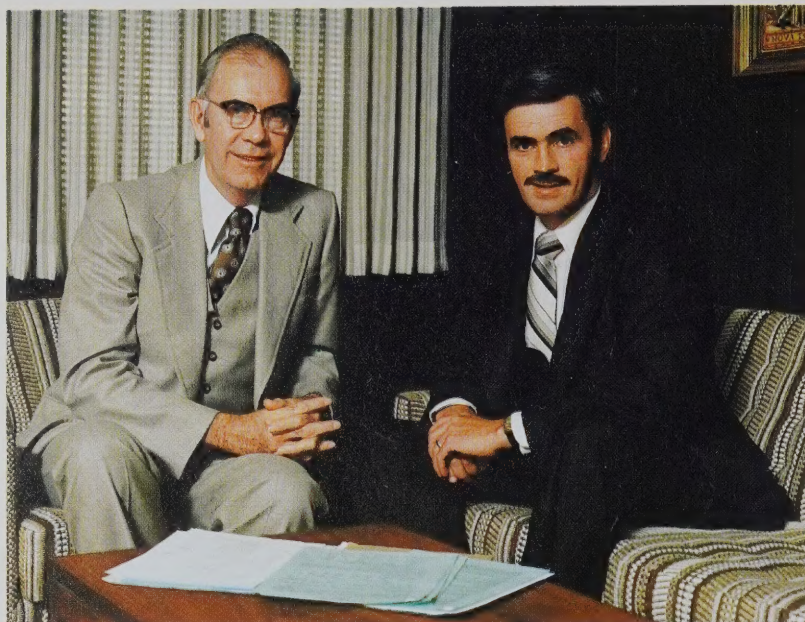
UCO Board of Directors

- *Allan McIntosh, *President*
- *Robert Coulthard, *1st Vice-President*
- *Royden Bloomfield, *2nd Vice-President*
- *Robert Down
- Clifford Allen
- John Black
- Ewald Lammerding
- Tyson Langman
- Stuart Luckhardt
- Neil McGeachy
- Ernest Miller
- Roland Serré

* Members of Executive Committee

UCO Senior Management

- Julian L. Smith, *Executive Vice-President and General Manager*
- Robert J. Wright, *Vice-President, Corporate Services and Corporate Secretary*
- Lionel J. Emond, *Vice-President and Treasurer*
- Frank C. de Lint, *Vice-President and Controller*
- Russell E. Duckworth, *Vice-President, Retail Services*
- Donald Huff, *Vice-President, Farm Products Marketing*
- Donald M. Moffatt, *Vice-President, Supply Services*



Fiscal 1977 was a year of progress, but one which required much more push to move forward. UCO operations experienced the same change in economic climate that most Ontario farmers experienced with adverse weather conditions as in the early fall of 1977. Regardless of the deteriorating farm income situation, members gave their co-operative growing support manifested in many ways. UCO sales increased \$12.4 million over the previous year to push volume to an all time high of \$304.8 million. Furthermore, indications are that in most major areas your co-operative increased its share of market despite the sluggish economic environment. Nevertheless, earnings suffered and savings were a modest \$504 thousand.

As input costs caused difficulty for Ontario farmers so they did for your co-operative, along with other factors. The declining Canadian dollar and widely fluctuating protein markets both contributed to loss of earnings. The most unfavorable impact was in chicken broiler processing where operations were squeezed between statutory prices for live birds and low priced competition from imported poultry at the supermarket level.

UCO has maintained an aggressive construction and renovation program. Interest and depreciation costs of these projects have been an added load but have enabled your co-operative to expand service and share of market.

Continued growth in fertilizer volume and service has been made possible by ownership in CF Industries, the major North American fertilizer mining and

manufacturing complex. UCO's fertilizer earnings were greatly curtailed this year when CFI properly took advantage of a major tax write-off.

We completed our fourth year in the shipping business which has been profitable on an accumulated basis but did not show an earning this year due to low bulk cargo ocean freight rates.

Good progress was made with record unit volumes in livestock feed, petroleum, propane, fertilizer, seed corn, seed grain and small seeds and farm supplies. The number of head of livestock marketed showed a good increase, and the grain marketing service showed very good operating results.

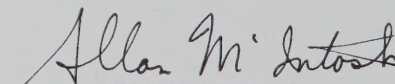
The major achievement during the year was the start of construction of a large deep water grain terminal at Windsor. This project was made possible by \$9 million of Federal government assistance. Its completion will mean that Ontario farmers will control the last major link in the chain of CO-OP oriented grain marketing facilities from the farm to loading ships for export markets. Separate financing has been arranged so as not to affect our normal construction activity.

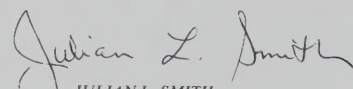
The growing confidence in UCO was demonstrated again this year by the record investment in UCO debentures of \$7.6 million. Also more people demonstrated interest in UCO by becoming members. There were 3,774 new members this year. Perhaps this results from UCO's active program of building member interest and the ever-increasing availability of co-operative information to you through

continued development programs for elected people, information meetings, and regular publications directed to the elected leadership and the members at large.

Your Board of Directors maintained a high level of interest and participation not only by their attendance at regular Board meetings but by their active involvement in co-operative meetings at the local level. Also your Directors continue to give leadership on a national and provincial basis by their participation on behalf of UCO on the Boards of The Co-operators, Co-operative Trust Company of Canada, Co-operative Union of Canada, and the Ontario Federation of Agriculture.

Again like many of our farm members, your Board and Management worked a little harder this year with perhaps even more dedication, but with less net returns in spite of reasonable "crop yields". However, we are confident that UCO continued to produce generally satisfactory levels of value and service as evidenced by its continued growing support.


ALLAN MCINTOSH
President


JULIAN L. SMITH
Executive Vice-President
and General Manager

UCO BOARD OF DIRECTORS

Seated

Robert Coulthard, Group 3
Allan McIntosh, Zone 2
Royden Bloomfield, Zone 8
Robert Down, Zone 7

Standing

Tyson Langman, Zone 4
John Black, Zone 5
Clifford Allen, Zone 3
Ewald Lammerding, Zone 6
Ernest Miller, Group 1
Roland Serré, Zone 1
Neil McGeachy, Zone 9
Stuart Luckhardt, Group 2





DONALD M. MOFFATT
Vice-President, Supply Services

IMPROVED PRODUCT SERVICE

Fiscal 1977 was a year of achievement and new beginnings in key product areas. Your new hybrid Seed Corn Plant in Chatham was completed during the year and dedicated on October 3 by Federal Agriculture Minister Eugene Whelan. During the year, the new facility allowed for processing increased volumes and varieties of hybrid seed corn and produced grading second to none in the industry. As a result of expanded growing and production, your co-operative was able to extend marketing of our popular varieties into Quebec, Manitoba, British Columbia and some states in the U.S.A.

Based on research done by CO-OP Research Farms, of which UCO is a major participant, 23 feed and feeding innovations were introduced. Improved feed formulations and a new concept in dairy feeding, the most significant in many years, resulted in the introduction of Protein Plus Dairy Ration.

The completion of two new fertilizer storage domes at Kemptville resulted in better service to members in eastern Ontario and allowed for larger volume imports through the port of Prescott.

In August, your co-operative acquired the facilities of Ontario Plant Foods Limited at Delhi along with their four retail operations. This provides for an additional 30,000 tons of fertilizer storage.

YOUR PETROLEUM BUSINESS GROWS

Petroleum sales growth during fiscal 1977, for both propane and liquid fuels, was greater than during many previous years, even after adjusting for the extremely cold weather experienced the past year.

Also, your co-operative purchased three

petroleum businesses which were integrated into the CO-OP retail system.

FERTILIZER ON THE MOVE

The fertilizer-use season in Ontario was compressed into a very short period this year. In one month alone, (May), UCO shipped as much fertilizer as during the entire year 10 years ago. However, slow movement in August and September limited the increased volume for fiscal 1977.

The "Canadian Farmer", the 15,000-ton bulk cargo ship chartered by UCO, was kept busy hauling a greater volume of fertilizer than last year. Product was carried from ports on the Gulf of Mexico to the Ontario ports of Prescott, Oshawa and Hamilton. From these points it was trucked to CO-OP retail locations throughout the province.

CF Industries, your inter-regional fertilizer production co-operative, completed five major new nitrogen production plants - three in Canada and two in the U.S.A. These expansions are designed to protect you from supply shortages in the future.

FEED PRODUCTION GAINS

The continued good acceptance of CO-OP Feed resulted in a production increase for the past year at central manufacturing plants. Earnings from feed and grain purchasing activities did not reach expectations due to great price fluctuations on protein meals, by as much as \$170.00/tonne on soyabean meal, for example, during July and August alone. This created difficulty in generating satisfactory margins.

Much work has been done on the proposed relocation of the Peterborough Feed Mill and the project is being reviewed.

OTHER FARM SUPPLIES

Small seeds sales increased by over 30% mostly as a result of the impact of inflation in this area.

Farm supply sales dollars increased by 15% during fiscal 1977 over the previous year. To service our Farm and Home Centres, a lumber and building supply program is now in full operation. The decision of your Board of Directors to build the Meadowvale Distribution Centre, successfully operating now for 2 years, has permitted improved service and expanded lines of merchandise and has helped to increase sales volume.

Due to reduced selling prices of several major herbicides, sales in agriculture chemicals did not improve substantially.

Your supply distribution system should be able to serve you with even greater efficiency for many years to come.

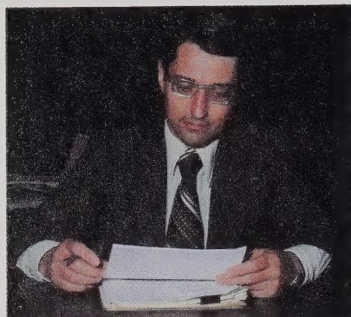


Inside new Guelph Feed Lab



New Chatham Seed Corn Operation





FRANK C. de LINT
Vice-President and Controller

SALES INCREASE OVER \$12,000,000

During fiscal 1977 your co-operative has continued its pre-eminent role as a major marketer of farm outputs and supplier of farm inputs in Ontario.

Total sales volume of \$304,750,298 increased by \$12,352,393 over 1976. While overall sales volume increased by 4.2% over last year, sales of major farm inputs increased by 9.5%. As a result, your co-operative improved its market share in such major product lines as feed, seed, fertilizer and farm petroleum.

Gross margins, when measured as a percent of sales, are somewhat lower this year than last year. A number of major factors specifically depressed gross margins in fertilizer, poultry processing, feed and farm supplies.

DEVALUATION OF DOLLAR COSTLY

As a major importer of farm equipment, fertilizer and twine, your co-operative was significantly affected by the drop in value of the Canadian dollar. This devaluation was costly to Ontario farmers and UCO, as it has increased the cost of many things we both have to buy. Also, we have to absorb the cost of rapid declines when purchase commitments are outstanding in U.S. dollars.

The unsettled situation in commodities, most particularly soyabean meal, and the need to be a continuous supplier of feed ingredients to patron members, resulted in your co-operative having to absorb some losses on positions during the past year.

Good contributions from poultry feed volume, hatchery and byproduct plant operations, were inadequate to offset the operating losses of the broiler processing plant. Operating results for the total poultry complex are substantially below the previous year.

UCO's potential patronage from CF Industries was reduced by almost \$1 million

due to that co-operative having to retain earnings for income tax purposes.

The combined impact of these factors contributed several millions of dollars to the reduction in net savings from last year.

EXPENSE ESCALATION

Inflation in the Canadian economy continues at a relatively high level when related to productivity improvements. This is true with farm operations as well as with your off the farm business, UCO.

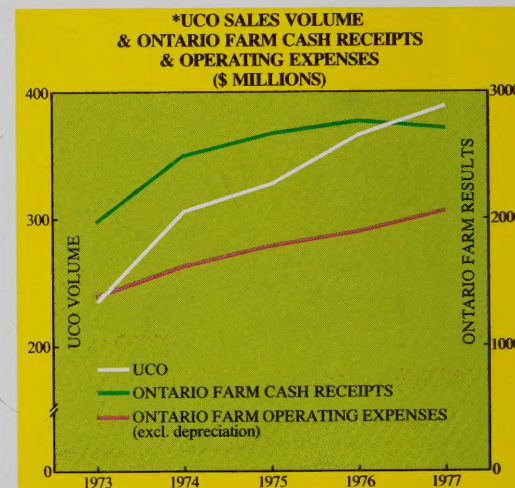
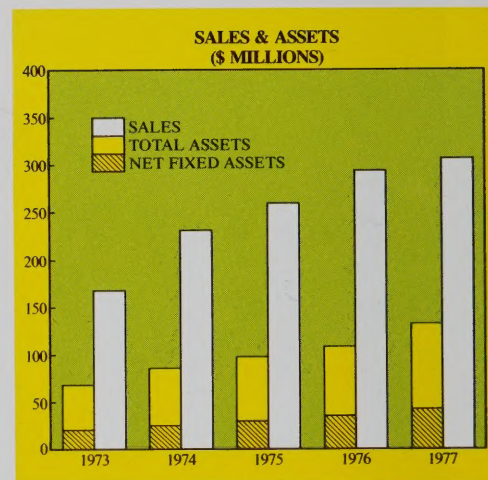
While volume increased during 1977, your co-operative's operating costs increased at a faster rate. Although some major expenses such as staff costs, business and property taxes, communications costs increased over 10% during the past year, energy costs increased by 24%, and interest on all borrowed capital increased by more than 20%. A wet 1976 harvest, a severe winter, and the continuing adjustment of Canadian oil and gas prices to international levels, resulted in the very significant increase in energy costs.

Continuing inflation and the related reduction in purchasing value of the Canadian dollar have the result that farmers and businesses need more capital to finance inventories and to maintain or replace facilities. For example, it now takes approximately 3 times as much capital to replace a feed mill as it would have 5 or 6 years ago. Thus, more of the funds required to replace facilities, as well as to continue your co-operative's expansion of services, must be provided from retained earnings and increased long term debt at high current interest costs.

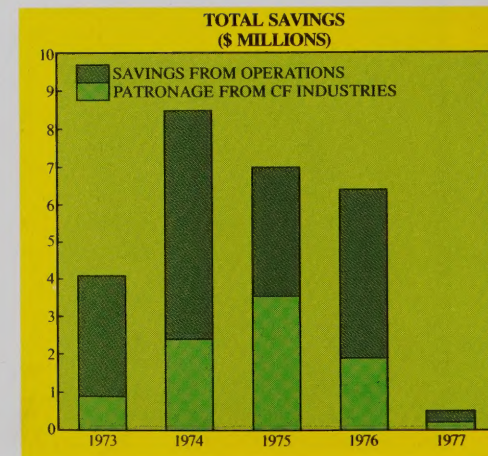
All these factors have been significant in reducing UCO's total savings to \$503,563 from last year's \$6,383,556.

While current economic conditions can reflect their impact on your co-operative's operating results very quickly, action taken to rationalize operations and reduce operating costs take longer to show a positive impact.

Opportunities continue to exist to increase the volume of business done by your co-operative. It is expected, however, that a sluggish economy will make significant gains difficult in 1978. Your co-operative must look to rationalizing its services and operations as the major approach to improving savings in the coming year.



*Includes UCO livestock marketing & 1977 estimates for Ontario farm results



UNITED CO-OPERATIVES OF ONTARIO
CONSOLIDATED BALANCE SHEET September 24, 1977
(With comparative amounts at September 25, 1976)

	ASSETS	1977	1976
CURRENT			
Cash		\$ 43,031	\$ 34,600
Accounts receivable, less \$1,578,837 allowance for doubtful accounts (1976 - \$1,604,079)		34,264,626	29,816,517
Current portion of investments and deferred accounts receivable		89,507	1,061,509
Merchandise inventories		45,051,489	34,411,733
Prepaid expenses and supplies		1,070,828	1,045,557
Total current assets		80,519,481	66,369,916
DEFERRED ACCOUNTS RECEIVABLE			
Deferred patronage receivable		5,443,394	5,730,082
Other deferred accounts receivable		333,308	424,300
		5,776,702	6,154,382
Less: Current portion shown under current assets		34,803	47,672
Total deferred receivables		5,741,899	6,106,710
INVESTMENTS (Note 2)		2,624,705	2,456,023
PROPERTY AND EQUIPMENT (Note 3)		41,217,783	35,030,087
		<u>\$130,103,868</u>	<u>\$109,962,736</u>
	LIABILITIES AND MEMBERS' EQUITY		
CURRENT			
Bank indebtedness		\$ 17,531,835	\$ 13,736,397
Notes payable		10,860,000	4,000,000
Accounts payable and accrued liabilities		25,044,978	22,321,172
Current portion of long term debt		240,046	271,460
Income taxes payable		26,225	84,602
Total current liabilities		53,703,084	40,413,631
DEFERRED INCOME TAXES (Note 1)		3,078,000	3,323,000
LONG TERM DEBT (Note 4)		40,712,501	34,234,137
Total liabilities		<u>97,493,585</u>	<u>77,970,768</u>
MEMBERS' EQUITY (Note 5)			
Preference shares - Class "A"		1,642,190	1,688,067
Preference shares - Class "B"		5,323,280	3,441,550
Common shares		12,140,720	10,477,431
Contributed surplus		650,499	643,126
General reserve - per statement		12,853,594	15,741,794
Total members' equity		<u>32,610,283</u>	<u>31,991,968</u>
		<u>\$130,103,868</u>	<u>\$109,962,736</u>

The accompanying notes are an integral part of these financial statements.
Approved by the Board:

Allan McIntosh, Director

Robert Coulthard, Director

CONSOLIDATED STATEMENT OF OPERATIONS

for the 52 weeks ended September 24, 1977

(With comparative amounts for the 52 weeks ended September 25, 1976)

	1977	1976
SALES	\$304,750,298	\$292,397,905
COST OF GOODS SOLD	262,101,817	251,151,421
GROSS MARGIN	42,648,481	41,246,484
COMMISSIONS	754,717	702,616
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	43,403,198	41,949,100
SAVINGS BEFORE INCOME TAXES	42,899,635	35,565,544
INCOME TAXES (Note 1)	503,563	6,383,556
NET SAVINGS for the year before payment of patronage returns (Note 6)	(179,800)	1,385,000
	\$ 683,363	\$ 4,998,556
Net savings for the year are after accounting for the following amounts:		
Investment income – deducted from expenses	\$ 309,640	\$ 271,349
Depreciation	4,111,763	3,745,411
Remuneration of directors and senior officers	479,068	418,447
Interest on debentures and long term debt	3,552,512	3,212,877
Interest on short term loans	2,532,421	1,833,382
Total interest	6,084,933	5,046,259

CONSOLIDATED STATEMENT OF GENERAL RESERVE

For the 52 weeks ended September 24, 1977

BALANCE AT BEGINNING OF YEAR	\$ 15,741,794	\$ 15,042,449
Add: Net savings for the year	683,363	4,998,556
Credit arising from revaluation and collection of branch accounts receivables	–	2,723
Gain on disposal of fixed assets	17,707	197,438
	16,442,864	20,241,166
Less: Patronage returns for preceding year (Note 6)	3,585,601	4,203,781
Dividends on preference shares (Note 8)	3,669	295,591
	3,589,270	4,499,372
BALANCE AT END OF YEAR	\$ 12,853,594	\$ 15,741,794

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the 52 weeks ended September 24, 1977

(With comparative amounts for the 52 weeks ended September 25, 1976)

SOURCE OF FUNDS

	1977	1976
Funds derived from operations		
Net savings for the year	\$ 683,363	\$ 4,998,556
Add: Charges to operations which did not require the outlay of current funds		
Depreciation	4,111,763	3,745,411
Deferred income taxes	(245,000)	1,080,000
	<u>4,550,126</u>	<u>9,823,967</u>
Decrease in deferred accounts receivable	364,811	-
Decrease in investments	-	861,065
Proceeds on disposal of property and equipment	336,590	340,706
Debentures increase	7,651,307	2,613,075
Preference shares issued	2,014,141	45,894
Common shares issued	2,354,192	2,906,801
Contributed surplus	7,373	113,719
Credit arising from revaluation and collection of branch accounts receivable	-	2,723
	<u>17,278,540</u>	<u>16,707,950</u>

APPLICATION OF FUNDS

Increase in deferred accounts receivable	-	1,509,812
Increase in investments	168,682	-
Additions to property and equipment	10,618,342	9,845,920
Debentures redeemed	958,582	524,124
Reduction to secured loans payable	214,361	71,347
Preference shares redeemed	178,288	206,096
Common shares redeemed	690,903	502,490
Payment of dividends on preference shares	3,669	295,591
Patronage returns for preceding year	3,585,601	4,203,781
	<u>16,418,428</u>	<u>17,159,161</u>

INCREASE (DECREASE) IN WORKING CAPITAL..... 860,112 (451,211)

WORKING CAPITAL AT BEGINNING OF THE YEAR..... 25,956,285 26,407,496

WORKING CAPITAL AT THE END OF THE YEAR \$ 26,816,397 \$ 25,956,285

WORKING CAPITAL IS DEFINED AS:

CURRENT ASSETS LESS:.....	\$ 80,519,481	\$ 66,369,916
CURRENT LIABILITIES	53,703,084	40,413,631
	<u>\$ 26,816,397</u>	<u>\$ 25,956,285</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 24, 1977

1. ACCOUNTING POLICIES

Consolidation

The accounts of all the wholly-owned subsidiary companies, being Patrons Capital Funding Limited, Patrons Acceptance Limited, Patrons Transportation Limited, Patrons Elevators Limited and Tend-R-Flesh Limited (non-operating) have been consolidated and are as at September 24, 1977.

Inventories

Inventories are valued at the lower of cost or replacement cost. Cost is determined principally on the first-in, first-out method.

Fixed Assets and Depreciation.

Fixed assets are stated at cost. The policy of the company is to provide for depreciation charges to operations, on a straight-line basis, which will absorb the cost of property, plant and equipment over the estimated useful lives. At the time property, plant and equipment items are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the accounts and the resulting gain or loss is included in the general reserve. Maintenance and repairs are charged to operations as incurred. Major renewals and betterments are capitalized.

Income Taxes

Income taxes charged in the consolidated statement of operations represent both the portion currently payable of \$65,200 and a reduction of the deferred portion of \$245,000. Income taxes otherwise payable have been reduced by taking into account the 3 % inventory allowance which has been proposed by the Federal Government.

2. INVESTMENTS - at cost

These are made up as follows:

	1977	1976
Shares in other companies.....	\$ 1,809,755	\$ 1,579,281
Loans to other companies	493,500	493,500
Properties	29,281	31,135
Mortgages due 1978-1983 at rates 5½% to 11½%	346,873	1,365,944
	<u>2,679,409</u>	<u>3,469,860</u>
Less: Current portion shown under current assets	54,704	1,013,837
	<u>\$ 2,624,705</u>	<u>\$ 2,456,023</u>

3. PROPERTY AND EQUIPMENT

Assets - at cost

Land	\$ 3,592,363	\$ 2,592,279
Buildings	26,017,072	20,998,026
Machinery and equipment	27,848,763	25,216,538
Automobiles and trucks	8,632,028	7,896,354
	<u>66,090,226</u>	<u>56,703,197</u>

Accumulated depreciation

Buildings	4,437,775	3,813,168
Machinery and equipment	14,591,548	13,000,131
Automobiles and trucks	5,843,120	4,859,811
	<u>24,872,443</u>	<u>21,673,110</u>

Net book value	<u>\$41,217,783</u>	<u>\$35,030,087</u>
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4. LONG TERM DEBT

Details of amounts outstanding are:

Debentures	5, 5½, 6, 7, 7½, 8	9, 9½, 10, 10¼, 10½	Compound 6, 7, 8, 9, 10, 10¼, 10½	Total
1977	\$ 150,685	\$ -	\$ -	\$ 150,685
1978	788,548	1,044,575	382,286	2,215,409
1979	840,325	1,029,164	491,530	2,361,019
1980	1,195,451	1,193,150	460,690	2,849,291
1981	2,579,055	133,760	423,042	3,135,857
1982	2,198,408	81,150	296,565	2,576,123
1983	327,233	1,627,700	481,489	2,436,422
1984	1,046,917	25,430	112,503	1,184,850
1985	2,161,192	84,605	289,923	2,535,720
1986	1,020,579	34,983	93,908	1,149,470
1987	149,489	3,790,258	5,663	3,945,410
1988	61,955	-	7,724	69,679
1989	67,500	2,599,200	338,182	3,004,882
1990	16,500	1,563,800	228,348	1,808,648
1991	51,500	818,485	162,273	1,032,258
1992	16,500	100	56,515	73,115
1993	35,500	-	10,989	46,489
1994	65,300	-	21,547	86,847
1995	-	-	319	319
1996	2,000	-	-	2,000
	<u>\$12,774,637</u>	<u>\$14,026,360</u>	<u>\$ 3,863,496</u>	<u>30,664,493</u>
Less: Principal repayments due within one year				150,685
				<u>30,513,808</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 24, 1977

4. (cont'd)

Other Long Term Debt

Mortgages		
5% to 10% due 1977-1987	\$ 658,054	
Other		
8% to 9 1/4% due 1979-1989	9,630,000	
	10,288,054	
	89,361	
Less: Principal repayments due within one year		10,198,693
Total long term debt		<u>\$40,712,501</u>

During the year, new debentures totalling \$7,601,879 were issued and debentures totalling \$958,582 were redeemed. Other long term debt due in the next five years is as follows: 1978 - \$89,342; 1979 - \$123,110; 1980 - \$4,509,422; 1981 - \$61,410; 1982 - \$5,228,750.

5. SHARE CAPITAL

Preference Shares

Class "A" 5%, Class "B" 6%, cumulative, non-voting, preference shares with a par value of \$10 each redeemable at par.

Common Shares

Co-operative common shares with a par value of \$10 each redeemable at par.

Authorized

	Preference Class "A"		Preference Class "B"		
	No. of Shares	Amount	No. of Shares	Amount	
Balance authorized					
September 25, 1976	810,100	\$ 8,101,000	580,897	\$ 5,808,970	
Redeemed during the year	5,485	54,850	14,500	145,000	
Balance authorized					
September 24, 1977	804,615	\$ 8,046,150	566,397	\$ 5,663,970	
	Common		Total		
	No. of Shares	Amount	Preference and Common		Amount
Balance authorized					
September 25, 1976	2,405,711	\$24,057,110		\$37,967,080	
Redeemed during the year	84,239	842,390		1,042,240	
Balance authorized					
September 24, 1977	2,321,472	\$23,214,720		\$36,924,840	

Changes during the year in shares issued and outstanding were as follows:

	Preference Class "A"		Preference Class "B"		Common	
	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
Outstanding						
Sept. 25, 1976	169,704	\$ 1,688,067	346,346	\$ 3,441,550	1,068,656	\$10,477,431
Issued during the year						
For Cash						
Fully paid			200,482	2,004,820	3,792	37,920
Part paid		3,502		5,819	-	31,604
		3,502	200,482	2,010,639	3,792	69,524
For 1976 Patronage						
Fully paid					225,863	2,258,630
Part paid					-	26,038
					225,863	2,284,668
Sub-total	169,704	1,691,569	546,828	5,452,189	1,298,311	12,831,623
Redeemed during the year	5,485	49,379	14,500	128,909	84,239	690,903
Outstanding Sept. 24, 1977	164,219	\$ 1,642,190	532,328	\$ 5,323,280	1,214,072	\$12,140,720

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 24, 1977

6. PATRONAGE RETURNS

Patronage returns allocated during the past two years are as follows:

	1977	1976
Farm supplies.....	\$ 3,240,359	\$ 4,016,346
Marketing.....	345,242	187,435
Total	<u>\$ 3,585,601</u>	<u>\$ 4,203,781</u>

7. NON-MEMBER BUSINESS

The non-member business for the year ended September 24, 1977 was approximately 29 percent of the total volume.

8. COMMITMENTS

Subsequent to the year-end, the Board of Directors authorized the redemption of the 1967 common shares in the amount of \$124,000.

The co-operative has guaranteed the indebtedness of another co-operative up to a maximum of \$1,000,000.

The co-operative is building a deep water grain terminal at Windsor at an approximate cost of \$21,000,000 over the next two years. The Government of Canada has agreed to contribute \$9,000,000 of this amount with provision for repayment depending on the degree of financial success of the project. As at September 24, 1977 approximately \$7,000,000 in contracts have been awarded.

The Board of Directors authorized the payment of dividends on October 1, 1977 of approximately \$323,000 payable to Class "A" and Class "B" preference shareholders of record as of September 24, 1977.

9. ANTI-INFLATION LEGISLATION

The co-operative is subject to the anti-inflation legislation (Bill C-73) which provides for the restraint of profit margins, prices, dividends and compensation to employees. In the opinion of management, the co-operative is in compliance with this legislation.

AUDITOR'S REPORT

To the Shareholders

United Co-operatives of Ontario

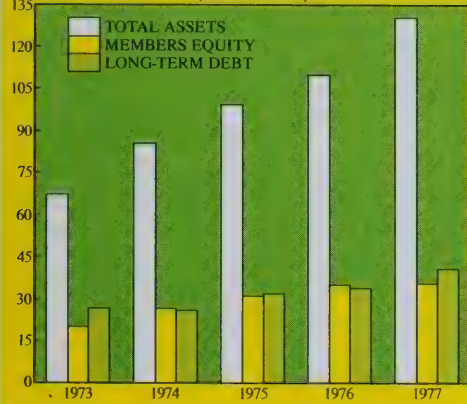
We have examined the consolidated balance sheet of United Co-operatives of Ontario, as at September 24, 1977, and the consolidated statements of operations, general reserve and changes in financial position for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the co-operative as at September 24, 1977, and the results of its operations and changes in its financial position, for the 52 weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

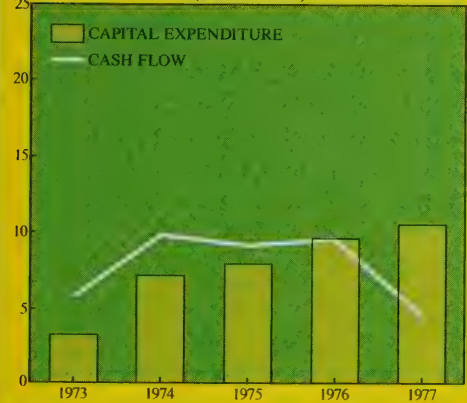
Toronto, Ontario
November 10, 1977

G. H. Ward and Partners
Chartered Accountants

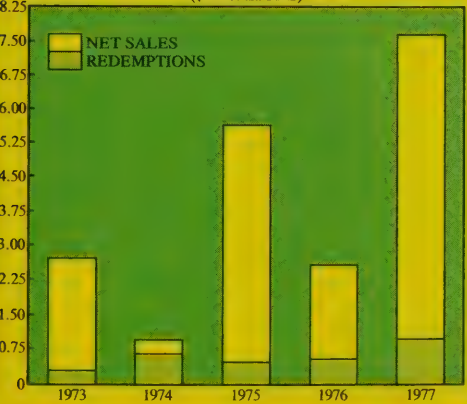
COMPARATIVE TOTAL ASSETS, EQUITY & LONG-TERM DEBT (\$ MILLIONS)



CAPITAL EXPENDITURE & CASH FLOW (\$ MILLIONS)



DEBENTURES: SALES & REDEMPTIONS (\$ MILLIONS)



NEW INVESTMENT OPPORTUNITIES

Members' equity, including deferred taxes, improved by \$373,315. As a percentage of total assets it represents 27.4% which compares to 32.1% at the end of 1976. Management believes that your co-operative must build up a stronger equity, and towards this end will take action to develop general reserves and increase capitalization.

The ratio of long-term borrowings to equity was 53.3% at year end, as compared to 49.2% at the end of 1976. This increase reflects greater use of debt financing during the year required to finance capital expenditure programs covering plant, equipment and land banking.

For fiscal 1977, debenture sales aggregated \$7.6 million less maturities of about \$1 million. A new 10 year series debenture was created with a flexible rate sensitive to the current bank rates. The prime bank rate changed three times during the year, consequently the 10 year debenture rate was adjusted from 9½% to 9% on May 13, 1977.

New investment opportunities are expected to be made available to member-investors this year; 5 year debentures and 15 and 20 year term members' capital investment certificates.

A private placement of first mortgage bonds of \$12 million was concluded during the year to finance the Windsor Grain Terminal project. Nine major insurance and pension funds joined together in providing a 20 year first mortgage loan, with draw-downs commencing December 15, 1977 and concluding on June 15, 1978.

CREDIT LINES FULLY UTILIZED

Bank credit lines for your co-operative supplied the working capital needed to meet the spring peak financial requirements. Inventory levels peaked in March at a record \$49.2 million. This was to ensure that fertilizer and other supplies would be in place to meet members' spring needs. Accounts receivable reached a record level of \$52.6 million in May reflecting massive spring sales, but dropping to \$34.3 million at year end.

Credit lines were also developed from the co-operative credit sector, and together with funds raised on the commercial paper market, served to complement our bank lines to meet operating requirements, and



LIONEL J. EMOND
Vice-President and Treasurer

also to provide bridge financing capacities for our various current capital projects.

Working capital amounted to \$26,816,397 at September 24, 1977 as compared to \$25,956,285 the previous year.

INTEREST RATES DECLINE

As a result of the decline in prime bank rates (from 10.25% in November 1976) your co-operative paid a lower effective borrowing rate during 1977. Rates paid to patrons on their deposit accounts were reduced to 7% on July 11 where it stood at year end.

Interest costs during the year increased by over \$1 million whereby savings from reduced interest rates were offset by larger borrowings.

CREDIT SERVICES TO MEMBERS

Assistance was given to various patrons and member co-operatives during the year to obtain re-financing for their activities.

Patrons Acceptance Limited, a subsidiary of UCO, continues to provide assistance to patrons through time payment plans for purchases of equipment, building materials, furnaces, white goods and appliances.

OTHER ACTIVITIES

Several land acquisitions were made for future use, while certain disposals were made of properties surplus to our needs.

Your co-operative is preparing to protect members' investments due to anticipated changes in the land tax assessment approach, as suggested by the Blair Commission (commissioned by the Provincial Government to review and propose a new property tax program).

Considerable legal activity occurred during the year occasioned by several major negotiations, e.g. Windsor Grain Terminal project, Ontario Plant Foods Ltd. acquisition, various retail branch sites, together with a variety of land transactions, mortgages and credit litigation problems.



RUSSELL DUCKWORTH
Vice-President, Retail Services

EXPANDING FOR BETTER SERVICE

UCO continued building a base for the future and expanding its sources by adding to and remodelling retail facilities. One more gas bar was added to the 14 already operating at retail locations. Home heating oil volume continued expanding with increased concentrated sales efforts through traditional markets plus entrance into new markets through aforementioned acquisitions. Local feed milling services continued to be examined with modifications being made as required. A new fertilizer blender and storage facility were built at Picton. The addition of spreading equipment at many points across Ontario contributed to continued growth and increased retail fertilizer market share.

New grain facilities totalling 300,000 bushels of storage were built at branches along with 4 new dryers, strengthening your retail grain marketing services. Your co-operative added 31,500 square feet of retail space to the traditional farm supply stores and Farm and Home Centres to accommodate the need for "one stop shopping". The largest stores opened in fiscal 1977 were at Hespeler (8,700 sq. ft.), Georgetown (8,000 sq. ft.), and Lindsay (13,200 sq. ft.). Farm machinery continued as a positive service at three UCO branches.

LOCAL CO-OPERATIVES CONTINUE GROWTH

Retailing in the CO-OP structure in Ontario encompasses the activities of local co-operatives and UCO branches. Many local co-operatives in Ontario also followed a pattern of aggressive expansion and remodelling of stores, grain storage, fertilizer warehouses, equipment and local feed mills. Most noticeable among local co-operative expansion was a major feed mill

renovation at La Coopérative Agricole de St. Isidore, 2,440,000 bushels of additional grain storage through a new elevator at Mitchell Co-operative Association and additional storage facilities at Norfolk Co-operative Co. Ltd., Wanstead Farmers Co-operative, Tilbury Farmers Co-operative, Elgin Co-operative Services, Exeter District Co-operative, Harrow Farmers' Co-operative and Hensall District Co-operative. New distribution outlets were added at Elmvale, (part of Simcoe District Co-operative), and at St. Marys, (part of Stratford District Co-operative), with major store renovations underway at Perth District Co-operative. These combined efforts of the total co-operative retail system in Ontario are dedicated to supply the goods and services required to maintain a growing and sound agricultural economy in Ontario.

We are pleased to have the opportunity of working with local co-operatives on a management agreement relationship. This year, we had the pleasure of welcoming Warkworth Co-operative Services to the management agreement service.

METRIC IS HERE

Metric measurements made their way into the agricultural scene in fiscal 1977 with various segments of the agricultural industry entering the metric field at different times. The co-operative system, commencing with the feed and grain business, accepted the challenge and co-operated fully by introducing metric weights and measurements in this field. Members accepted the challenge realizing that the conversion to metric will facilitate simpler calculations in the future. However, as a result, heavy capital outlays for new scales and scale modifications were necessary in fiscal 1977.

These expenditures will continue over the next few years as we convert completely to metric.

DEDICATED LEADERSHIP

The life-support of your retail system is the growing strength and dedication of the elected leadership in both local co-operatives and retail branches (council members of UCO branches, and directors of local co-operatives). They continue as the underlying strength of Ontario co-operative development. Last year we reported on the introduction of a long range planning concept or PIPER program (Planning Inputs for Elected Representatives). Within the UCO branch structure the planning process continues, with specific identification of areas for improvement. Through this process, management will continue to work to meet the members' expectations. It is through the teamwork and co-operation between elected representatives and management that co-operatives grow.



Democracy in action - Zone Meetings



Full-service retail facility at Woodstock



New grain handling facility at Mitchell





DONALD HUFF
Vice-President, Farm Products Marketing

A MILESTONE FOR CO-OPERATIVE GRAIN MARKETING

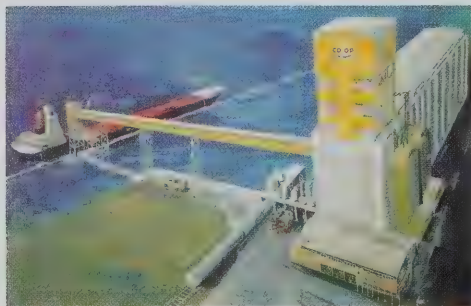
Our centralized grain marketing program and the recent growth in CO-OP country elevator facilities set the stage for building the first deep water grain terminal in southern Ontario since 1929.

The Windsor Grain Terminal will play a significant role in developing new marketing opportunities for Ontario grain growers domestically and elsewhere. Your new facility, when completed, will accommodate maximum size seaway and lake vessels and will handle grain loading and unloading via water, rail and road vehicles. Initial storage capacity will be 2.7 million

share to 39 per cent of the livestock handled at the Ontario Public Stockyards. The figures themselves are encouraging but the reasons behind the increased use of UCO's livestock marketing facilities are probably more important. Firstly, there is a recognized security advantage for farmers doing business at the Ontario Public Stockyards. The Shippers' Trust Account arrangement and the fact that plants purchase cattle through bonded sales agencies at the Toronto yards gives farmers assurance that they will be paid. They do not receive this protection when marketing cattle in other ways. This is an area of concern in today's economic climate. During the past year one Ontario packing plant went into receivership and another one got into serious financial difficulties. Secondly, your co-operative does have good buyer support in its auction rings and it is this active buyer competition that helps the producer get top market price for livestock. Also, we are confident we have highly qualified staff,

heavy losses in chicken processing incurred for 15 of the last 16 months. The impact of heavy U.S. imports has been primarily felt in the Ontario market and secondarily in the Quebec market. In calendar 1976, imports of U.S. chicken hit a high of 54 million pounds and the figure will be about the same for 1977. U.S. imports have represented about 25% of Ontario's production. There were very few imports prior to 1976.

In November, 1976, the Canadian Broiler Council presented a plan for a National Chicken Agency. This is the only vehicle which will facilitate restrictions on U.S. imports, either live or dressed. As of mid-October there are three provinces, British Columbia, Alberta and Manitoba which still have not signed the National Marketing Agreement, thus it cannot be sent to the Federal Cabinet for approval. In the meantime, the major importers of both live and eviscerated poultry will have established a good quota if the National Plan is adopted.



Artist's conception - Windsor Grain Terminal



bushels and the elevator will feature high-speed receiving, drying, handling and shipping capabilities.

In addition to serving a neighbouring oilseed crushing plant, the Windsor Grain Terminal will supplement your CO-OP country elevator grain handling system and will receive grain directly from producers.

LIVESTOCK MARKET SHARE BOOSTED

During 1977, UCO handled more livestock than ever before and increased market

whose sole concern is to get the highest possible return for the farmer.

POULTRY IMPORTS CAUSE DIFFICULTY

Combined earnings from your poultry Hatchery and poultry Recycling Plant were quite satisfactory. Turkey and broiler feed sales have improved, but poor gross margins were the result of adverse market conditions.

However, Hatchery and Recycling Plant earnings fell short of compensating for

UCO has tried to avoid imports as in the long run they help to destroy Ontario broiler production.

In response to these conditions, your co-operative is doing everything possible with Tend-R-Fresh operations to ensure maximum efficiency and supports any plan that will improve the entire poultry industry.

DEVELOPMENT OF ELECTED OFFICIALS

During fiscal 1977, 236 elected representatives representing 49 branches and 15 member co-operatives participated in your Building Leadership Skills Program. Complementing the training sessions, a delegates' manual is being distributed. It is designed to be helpful as a handy reference for elected representatives.

This year, we have continued our efforts to provide information to members and elected representatives through the UCO NEWS and the UCO LEADER, two major co-operative publications.

STAFF RELATIONS AND DEVELOPMENT

The strength of UCO depends on the hiring and retaining of well qualified people, helping them to develop to their fullest capacity, and ensuring fair and equitable treatment.

Training and development of staff is a major part of our overall program. Last year, we conducted 25 in-house training courses. In addition, we participated with

to promote safe practices and reduce on-the-job accident occurrences through employee safety committees and the Accident Review Committee.

During 1977, considerable attention was paid to our total compensation program, following the guidelines of the Anti-Inflation Board. Two major union contracts were successfully negotiated this year resulting in settlements in accordance with AIB guidelines.

Employees are kept informed of general interest matters through the UCO REPORTER, published six times a year and circulated to the homes of all UCO staff.

At fiscal year end, your co-operative employed 1,845 people.

BUSY CONSTRUCTION PROGRAM

During fiscal 1977 there was heavy demand for engineering services. C. D. Howe Central Limited, a well-known engineering firm, was retained to provide consultative assistance in various phases of



ROBERT J. WRIGHT
Vice-President, Corporate Services

tions in an effort to find more efficient ways of drying grain and reduce fuel consumption.

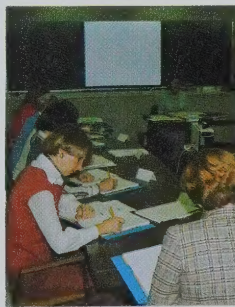
NEW COMPUTER ACQUIRED

Due to rapid changes in computer technology and the greatly increased workload, it was necessary to acquire a new, large-scale central computer. This has involved a great deal of extra work in converting our present systems to operate on the new equipment. Upon completion, we will be in a good position to meet the anticipated increase in future data processing requirements.

One of the newest computer applications involves the revision of our retail accounting system. Early next year should see the



Busy at conversion to new computer



Staff training at Mississauga



Engineering services in demand

The Co-operators, the Ontario Credit Union League and Gay Lea Foods in the development and implementation of several major seminars open to co-operative employees. This was a significant step that marks the beginning of a renewed effort to develop an ongoing, jointly sponsored, co-operative training program in Ontario in conjunction with Co-operative College of Canada.

Among employee programs, safety training ranks as a priority. Every effort is made

the Windsor project. Design work is complete and most of the tenders have been let.

In addition to this, UCO has been involved in 60 other projects encompassing new construction, repair and modernization of facilities throughout the province. Special efforts have been made to reduce operating costs through energy conservation. As part of this program, your co-operative has entered into a contract with the University of Guelph to conduct a research study on our grain drying opera-

introduction of a mini computer, replacing some of our electronic bookkeeping machines in selected retail accounting centres.

A short list of computer applications in your co-operative would include complete member and investment records for our 43,500 direct members and other members-investors, inventory control, feed formulations, budgeting and major accounting systems.

UCO TEN YEAR SUMMARY

FINANCIAL AND OPERATING HIGHLIGHTS

					(\$000's omitted)					
	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Operations and Changes in Financial Position										
Net sales	304,750	292,398	258,441	230,457	166,360	133,941	124,097	108,735	96,535	88,262
Net savings before taxes and patronage	504	6,384	7,066	8,471	4,134	1,595	860	760	1,020	975
– as a % of sales	0.2%	2.2%	2.7%	3.7%	2.5%	1.2%	0.7%	0.7%	1.1%	1.1%
Patronage returns	–	3,586	4,204	3,997	2,642	783	–	–	429	371
Increase (decrease) in working capital	860	(451)	4,913	(698)	9,119	1,279	4,520	1,275	1,164	23
Net additions to property and equipment	10,618	9,846	8,226	7,325	3,437	5,747	4,172	3,993	2,915	1,948
Cash flow from operations	4,550	9,824	9,253	9,864	5,698	3,364	2,395	2,106	2,226	1,932
Depreciation	4,112	3,745	3,243	3,034	2,277	1,915	1,768	1,506	1,394	1,180
Financial Position at Year-End										
Working capital – \$	26,816	25,956	26,407	21,495	22,193	13,075	11,795	7,275	5,999	4,835
– ratio	1.5	1.6	1.7	1.6	2.1	1.6	1.5	1.3	1.3	1.3
Property, plant & equipment	41,218	35,030	29,073	24,366	20,200	19,710	16,008	14,329	12,011	10,759
Total assets	130,104	109,963	99,356	85,257	67,000	59,498	52,800	48,169	40,135	34,963
Long-term debt	40,713	34,234	32,217	25,374	26,560	20,065	16,829	12,234	10,204	8,968
– as a % of long-term debt plus members' equity	53%	49%	51%	49%	57%	56%	47%	50%	48%	48%
Cash flow to capital expenditures	0.43:1	1:1	1.12:1	1.35:1	1.66:1	0.59:1	0.57:1	0.53:1	0.76:1	0.99:1
Equity to total assets %	27.4%	32.1%	31.4%	31.1%	30.1%	26.4%	26.9%	25.7%	28.2%	27.7%
Number of members	*43,500	45,300	43,400	39,600	38,600	35,600	32,000	28,900	24,400	20,700

*Over 4,000 partially-paid shares were redeemed to members whose full members' share was not paid in accordance with the Co-operative Corporations Act.

UCO BASIC PURPOSE

It is the purpose of United Co-operatives of Ontario to operate a growing and economically sound co-operative furnishing farm supplies and services, marketing farm products, and supplying consumer goods and services, in a manner which gives present and future members economic benefits and improves their quality of life and well being

United Co-operatives of Ontario is the largest farm supply and marketing co-operative in the province. More than 43,000 direct members and over 50 member co-operatives across Ontario are the owners of UCO. Because we are a co-operative, each member has an equal voice. The familiar "CO-OP" or "UCO" sign can be

found in most rural Ontario towns on feed mills, fertilizer facilities, petroleum trucks, grain elevators, retail outlets and on our new Farm and Home Centres. On behalf of our membership, we serve as a manufacturer, wholesaler, distributor and retailer, and in these ways play an important part in the economy of rural Ontario.



UNITED CO-OPERATIVES OF ONTARIO

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